

## CONTINUED RESTRUCTURING OF MILITARY BASES

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	0	38	135	150	166	489
Outlays	0	32	118	144	161	455

NOTE: Preliminary estimates, subject to change.

The Department of Defense manages over 5,000 installations and properties worldwide. The cost of operating and maintaining these facilities in fiscal year 1981 will be about \$16 billion. Since 1969, the department has taken more than 4,000 realignment and closure actions designed to provide a more efficient defense structure and to reduce base operating costs. Further actions are possible.

Proponents of further base restructuring point to the wide variation in base operating support costs as an indication of the potential savings from such actions. For example, the cost per person assigned to a mission task at the most expensive base often exceeds that at an average base by three to one and sometimes much more--even after adjusting for base size and type of mission. While many factors influence such cost comparisons, the wide variation suggests that further efficiencies are possible. Proponents also contend that changes in the nation's strategic needs, force levels, and weapons technology demand modifications in the existing basing structure. Such realignments need not eliminate places for reserve unit training or reduce mobilization potential, since bases can be put in caretaker status.

CBO has no independent estimate of the total savings possible from further base realignments, because such estimates depend critically on detailed reviews of the situation at each base. One basis for an estimate is the Department of Defense's March 1979 base realignment proposals affecting 157 military installations and activities. If the department pursues and the Congress allows the remaining realignments in this proposal, total savings over

the next five years would amount to \$455 million. These savings would result primarily from a reduction of 2,700 military and 2,800 civilian positions. There would be few if any savings in 1982 because of the added costs of construction, transferring employees, and avoiding economic dislocation.

The major opposition to base realignments stems from the economic dislocation they might produce in communities near the bases--often a cause of intense local concern. Measures can be taken, however, to mitigate this. The Department of Defense states that its Office of Economic Adjustment has been relatively successful in providing planning assistance and ensuring that federal grants and loans are directed to affected communities.

# INCREASE IN JOINT-SERVICE ADVERTISING

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	18	21	24	26	29	118
Outlays	15	20	23	26	29	113

NOTE: Preliminary estimates, subject to change.

Since the transition to an all-volunteer force began in 1973, advertising budgets for military recruiting have grown from almost nothing to over \$140 million for fiscal year 1981. Less than 10 percent of these funds have been dedicated to joint advertising in which two or more services appear in the same advertisement. Yet the Department of Defense has found that, for certain purposes, joint-service advertising would be more cost-effective. Tests show, for example, that joint-service magazine advertising yields, per dollar spent, 1.5 times the number of applicant leads for recruiting as does single-service magazine advertising. Joint-service advertising may also help to avoid undesirable interservice competition for recruits.

If these findings hold for all advertising media, the services could cut advertising costs substantially and still obtain the same number of qualified leads. For example, if Congressional appropriations actions mandated conversion of one-half the single-service media budgets into joint advertising, savings could amount to \$15 million in fiscal year 1982 and \$113 million over the next five years.

The principal argument against joint-service advertising is that it provides a popular service, such as the Air Force, with more leads than others like the Army, even though the Army's manpower requirement is far greater. Also, single-service advertising is useful in publicizing occupations such as armor crewman or nuclear propulsion specialist that are unique to a specific service. Under the option described above, however, the services could use the half of their advertising funds not devoted to joint advertising to meet these specialized objectives.

#### STREAMLINING OF MILITARY RECRUITING SUPPORT OPERATIONS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	66	73	80	88	96	403
Outlays	59	71	79	87	95	391

NOTE: Preliminary estimates, subject to change.

The transition to an all-volunteer force during the 1970s spawned a dramatic growth in military recruitment costs, which rose from about \$125 million in fiscal year 1970 to nearly \$1 billion in 1981. These expenditures pay for recruiting, examining, advertising, cash enlistment bonuses, and education incentives for active and reserve recruits. About two-thirds of the total is for the pay and support of some 18,000 production recruiters working in 7,000 recruiting offices nationwide.

A decade of experience suggests possible ways of reducing these costs without reducing productivity. For example, the Department of Defense could consolidate a number of logistical and administrative support functions common among the services, including the training of recruiters, the development and operation of computerized recruit information systems, the leasing of vehicles and recruiting offices, and specialized functions such as education and occupational guidance counseling. The services, and particularly the Army, could also streamline their recruiting management structures and search for other opportunities to consolidate and standardize operations in this field.

If Congressional appropriations action mandated these changes, CBO estimates savings of \$391 million would be possible over the next five years, primarily from personnel reductions. The Congress might well require a detailed plan from the services for minimizing transition difficulties and the risk of recruiting shortfalls before mandating the changes described here.

# ENDING OF CERTAIN SOCIAL SECURITY CREDITS FOR MILITARY PERSONNEL

Savings from	Annual Savings (millions of dollars)					Annual Long- Run Savings (1982 dollars)
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	0	0	0	0	0	30
Outlays	0	0	0	0	0	30

NOTE: Preliminary estimates, subject to change.

Since 1957, military personnel have contributed to the Social Security System and received benefits in proportion to their basic military pay. But some military personnel receive additional Social Security benefits based on credits of as much as \$1,200 a year for which they do not contribute. The noncontributory credits are given to personnel whose basic pay is less than the maximum earnings subject to Social Security taxes--in 1980, over 95 percent of those in uniform.

According to a 1980 General Accounting Office (GAO) study, the Congress intended the noncontributory credits to provide added disability and survivor benefits for those who spend only a few years in the military. GAO concluded, however, that today's noncareer personnel generally receive disability and survivor benefits from several sources and in adequate amounts. Moreover, the Congress apparently did not anticipate that career military personnel would benefit from the noncontributory credits, although recent increases in the maximum earnings subject to Social Security taxes ensure that most will.

If the Congress eliminated noncontributory credits for future service, the Social Security System would begin to experience savings in about 15 years. These savings would eventually grow to about \$30 million a year (in 1982 dollars). Elimination of the noncontributory credits would, of course, slightly reduce military compensation. Any adverse effect on retention should be small, however, since the benefits based on the noncontributory credits are small and are received many years after military reenlistment decisions are made.

# CONTINUED RESTRUCTURING OF ACTIVE-DUTY MILITARY RETIREMENT

Savings from	Annual Savings (millions of dollars)					Annual Long- Run Savings (1982 dollars)
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	0	0	0	0	0	900
Outlays	0	0	0	0	0	900
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

The active-duty military retirement system provides benefits for about 1.2 million retirees at a cost of about \$13 billion in fiscal year 1981. Under this system, nondisability retirees earn benefits after 20 or more years of service irrespective of their age or whether they subsequently find employment in the private sector. Those serving for fewer than 20 years earn no benefits. Five major studies, plus a legislative proposal from the Carter Administration, have recommended providing more of the total military compensation package "up front" rather than in retirement years. This would provide mid-career personnel with increased incentives to remain in the service, while reducing the incentive to leave the military immediately after completion of 20 years' service. In 1980, the Congress moved in this direction by requiring that retirement pay for new recruits be based on the three years when their pay was highest, rather than their pay on the day of retirement.

The Congress could continue to change the military retirement laws along lines recommended in various studies. It could implement a Social Security "offset" for nondisability retirees in order to integrate military retirement benefits with Social Security. The offset would equal the portion of the Social Security pension attributable to military service, but not more than 40 percent of military benefits. This formula was enacted last year for the military survivor benefits program. In order to move some of the savings from this offset up front, the Congress could also provide a deferred benefit, beginning at age 60, for those leaving the military with between 10 and 19 years of service. This deferred benefit would be based on the same formula as the annuities provided those serving longer careers.

The deferred benefit for those serving 10 to 19 years would increase the rate of reenlistments by first-term personnel. This would offset the decline in retention resulting from the Social Security offset. This package would thus increase the numbers of career personnel with five to 12 years of service, a shift most of the services think desirable. The changes would also save money. Savings would eventually reach \$0.9 billion a year, or about 7 percent of long-run nondisability retirement costs. Although the savings would probably not begin for at least 20 years, the liability that the government is accruing for future retirement costs would be adjusted immediately.

The Social Security offset might be opposed by the services as an erosion of benefits, especially if it was applied to personnel currently on active duty. There is also some uncertainty with respect to CBO's estimates and there could be a net decline in retention.

President Carter's fiscal year budget recommendations include proposals similar to the foregoing. Therefore, this option would not produce substantial savings relative to the Carter budget.

# RESTRUCTURING OF RESERVE RETIREMENT PAY

Savings from	Annual Savings (millions of dollars)					Annual Long- Run Savings (1982 dollars)
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	0	0	0	0	0	300
Outlays	0	0	0	0	0	300

NOTE: Preliminary estimates, subject to change.

Under current law, military reservists with 20 or more years of satisfactory service are eligible for a retirement annuity beginning at age 60. About 113,000 former reservists are drawing retirement pay, at a cost to the federal government of \$687 million in fiscal year 1980.

Numerous studies have criticized the military compensation system for providing too great a proportion of benefits upon retirement, and not enough compensation in earlier years. This may tend to produce a shortage of junior personnel and an excess of senior careerists. An informal 1978 study by the Department of Defense of the reserve compensation system contained data showing the fraction of reservists with 20 or more years of service to be more than 50 percent above the level desired.

The Congress could take account of these criticisms and reduce reserve retirement benefits for senior careerists by integrating them with Social Security. The reserve retiree's annuity might be reduced by the portion of his Social Security pension attributable to his military earnings, but by not more than 40 percent of military benefits. This formula was enacted in 1980 for the military survivor benefits program. In addition, the Congress could provide an annuity at age 60 for enlisted reservists separating with between 10 and 19 years of service, using the same formula applied to those with longer careers. Currently, those who leave with fewer than 20 years of service receive nothing.

Net savings from these changes would eventually reach about \$300 million a year (in 1982 dollars), or about 20 percent of



reserve retirement costs. Significant outlay savings under this option would not begin for 10 to 40 years, depending upon the treatment of those now in the reserves, but the liability that the government is accruing for future reserve retirement costs would be adjusted immediately.

The incentives provided by these changes could improve the composition of the reserve forces, as well as overall reserve manning. On the other hand, such major changes in the long-established reserve compensation system might have a detrimental impact on manning in some reserve components.

INCREASE IN THE STATES' SHARE OF ARMY NATIONAL GUARD COSTS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	210	230	250	270	300	1,260
Outlays	210	230	250	270	300	1,260

NOTE: Preliminary estimates, subject to change.

The 344,000 members of the Army National Guard serve two functions. They are part of the nation's reserve military forces, and they are used by the states to keep order when other police and security forces are inadequate, for assistance after natural disasters, for holiday traffic patrols, and for other state purposes. The states pay salary costs only when the Guard is actively performing a state mission; they pay nothing else toward the cost of the insurance role the Guard fulfills. This option would require the states to pay 10 percent of the operating cost of the Army Guard.

The argument in favor of the change, aside from the federal savings that would occur, is that it is reasonable to ask state governments to bear at least a part of the ongoing costs of military units that are primarily used for state purposes; and that, if the states had to pay some part of the costs, they would examine more carefully the desired size and capability of their Guard units. Opponents might well argue that the Guard's size is determined by federal mobilization requirements and that the Guard's state functions are simply auxiliary duties.

# SUBSTITUTION OF KC-10 PROCUREMENT FOR KC-135 RE-ENGINEING

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	-353	507	701	764	1,715	3,334
Outlays	-36	-105	169	536	813	1,377
Carter Budget						
BA	0	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	0	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

For several years, the Air Force has sought to expand its aerial refueling capacity through two programs: first, procurement of the new KC-10 advanced tanker, already begun; and second, development of a program to replace the old, noisy, and less efficient engines of the existing KC-135A tanker with modern engines. The CBO baseline includes funds to re-engine 288 KC-135A tankers during the next five years, which would increase aerial refueling capacity by the equivalent of 144 KC-135A aircraft. This is because the new engines would permit the KC-135A to carry more fuel while consuming less for its own flight.

On the other hand, it would be less expensive to purchase more KC-10 tankers. On missions for which either tanker is suitable, the KC-10 is estimated to be roughly equivalent to three KC-135As. Consequently, 48 additional KC-10 aircraft would equal the capabilities offered by re-engining 288 KC-135As. Buying these extra KC-10 aircraft, and not re-engining any KC-135A aircraft or developing the program, would save a total of \$1,377 million over the next five years. These savings assume that the 48 KC-10 aircraft would be purchased at a rate of one per month under terms comparable to those of the current contract, which offers substantial discounts for purchases of this size and rate.

In addition to providing roughly equal capability for many missions for which either tanker is suitable, this option would also increase the number of large KC-10 tankers, which are particularly efficient refuelers on long, nonstop transits like those

to the Persian Gulf. The option would, however, mean keeping in operation noisy and less efficient KC-135A aircraft. Their noise causes problems for the Air National Guard, which sometimes operates them near heavily populated areas. Moreover, operating expenses under this option could be expected to increase--mostly in years beyond 1986--because of the manpower needed to support the extra KC-10 aircraft, though the life-cycle increases in operating costs would be substantially less than the procurement savings over the next five years.

President Carter's fiscal year 1982 budget recommendations contain no KC-10 procurements and no substantial funds for KC-135 re-engining. Consequently, there is no opportunity for the trade-off proposed in this option.

# TERMINATION OF E-4B AIRCRAFT PROCUREMENT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	0	0	388	320	0	708
Outlays	0	0	39	204	281	524
Carter Budget						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

The E-4B is a 747 aircraft modified to function as an airborne military command post during a nuclear war. The planes are intended to serve both as a National Emergency Airborne Command Post (NEACP) for the President and his advisors and as support for the Strategic Air Command's "Looking Glass" mission, which provides a command post on continuous airborne alert over the central United States.

The Department of Defense has four E-4 aircraft that are sufficient to support the NEACP role; all have been or will be upgraded to the E-4B configuration. The department plans to buy two more E-4B aircraft for the Looking Glass mission. If the Congress did not buy these two aircraft, savings over the next five years would total \$524 million.

If no further E-4B aircraft were purchased, Looking Glass missions would continue to be flown by the EC-135 aircraft (707-type) that have been used over the past 20 years and are now being modernized. The savings figure cited above includes the added costs needed to enhance this modernization. Many of the advantages of the E-4B have been incorporated into the modernization program. The E-4B and EC-135 will have comparable computer capabilities. Very low frequency (VLF) communications, a key type of communications, will be improved on the EC-135 and will substantially match VLF coverage on the E-4B. Satellite terminals for EC-135 aircraft are currently under development and could be fielded quickly.

The E-4B does have several advantages over the modernized EC-135. The E-4B could carry a larger battle staff (41 versus 17), have greater endurance in an emergency, and be hardened against certain nuclear effects. Even if Looking Glass was not routinely flown by the larger E-4B aircraft, however, some of the four existing E-4Bs could be used to complement current operations if there was sufficient warning of an emergency.

President Carter's fiscal year 1982 budget recommendations do not contain sufficient detail to permit calculating the effect of the proposal relative to his budget.

# ACCELERATED BUYOUT OF AIRCRAFT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	-790	502	540	0	0	252
Outlays	-126	-374	-7	408	264	165
Carter Budget						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

The Department of Defense is planning to phase out the production of the F-14, F-15, and A-10 aircraft over the next three years. By ending the production of each aircraft one year earlier, but buying more aircraft in the remaining years, so as to buy the same total number of aircraft, savings of approximately \$165 million could be achieved. These savings result from economies of scale in production and the elimination of one year of factory overhead costs for each aircraft program.

Under this modified program, each of the production lines would close one year earlier, thereby reducing the fighter aircraft production base, with a loss of tooling and skilled factory labor. Thus, in case of an unexpected war, it would take a considerable period of time to restart production of these aircraft, as compared with the expansion of an ongoing production line. However, ongoing production lines for other similar combat aircraft exist in both the Air Force and the Navy.

President Carter's fiscal year 1982 budget deletes further procurement of A-10 aircraft beginning in 1982. Additional information about outyear programs is not available at this time. Consequently, there is no present basis for estimating savings relative to the Carter Budget from an accelerated buyout.

LIMITING OF DEFENSE INVESTMENT INCREASES TO 3 PERCENT REAL GROWTH

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	3,000	6,500	8,800	6,300	-7,900	16,700
Outlays	400	1,700	3,100	4,200	2,500	11,900
Carter Budget						
BA	1,600	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	900	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

In fiscal year 1981, the Congress provided for an increase of 15 percent in the real value of budget authority for the investment accounts of the Department of Defense: research and development (R&D), procurement, and military construction. The Congress could decide, however, that real increases in investment budget authority over the next five years should be limited to the 3 percent annual rate of growth that is the NATO standard for overall defense expenditures. This would reduce investment budget authority by almost \$17 billion over the five-year period 1982-1986 relative to the CBO baseline, and result in outlay savings of about \$12 billion in the same period.

Such a strategy would not affect Congressional commitments to increases in defense expenditures for pay or operating expenses. It would, however, slow modernization of the armed forces in a period when some believe that rapid modernization is needed. It might also send the wrong signal to U.S. allies, whom many believe need to do more, but are only likely to do so with strong U.S. leadership.

A cut of this magnitude would require some substantial changes to current plans. Several suggestions have already been offered elsewhere in this report; if all of these were pursued, five-year savings would total more than \$4 billion relative to budget authority in the CBO baseline.



One way to achieve the remaining \$13 billion in savings would be to proceed more slowly with those programs whose schedules are jeopardized by technological and other concerns, and to reduce or cancel programs for which cheaper substitutes might be available. A list of examples is provided below that would save \$13 billion over the 1982-1986 period, although the annual pattern of savings might differ from the table above.

Delaying development of the MX missile basing system by one year, to permit resolution of current environmental concerns, would save \$8 billion relative to baseline budget authority, although this would also delay initial deployment of MX by a year. Delaying the manned bomber for a year, to provide additional time for deciding among competing alternatives, could save at least \$1 billion during the 1982-1986 planning period, and perhaps as much as \$7 billion, although again at the potential cost of delaying initial deployment of the aircraft.

To respond to escalating costs in the F/A-18 program and the Navy's preference for the F-14 fighter, F/A-18 procurement could be limited to enough aircraft to equip nine Marine fighter squadrons. This would save \$2.5 billion even after allowing for purchase of 150 additional F-14s, 198 additional AV-8Bs, and 180 A-7s to make up the deficit in Navy and Marine aircraft. Limiting procurement of the AEGIS cruiser to three in 1982, versus the four assumed in the CBO baseline, would permit a more orderly buildup of the program and save \$0.9 billion. Limiting procurement of the XM-1 tank to equipping the divisions that would deploy to Europe in the first ten days following mobilization, while developing a two-man tank as a follow-on that would be less expensive to operate, would save \$0.8 billion.

President Carter's fiscal year 1982 budget authority recommendations propose more R&D and military construction, and less procurement than the CBO baseline contains. Consequently, the pattern of cuts relative to President Carter's budget request would be somewhat different, but insufficient information is available to make calculations at this time.

# INCREASED EFFICIENCY IN DEFENSE PROCUREMENT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

In fiscal year 1982, the Department of Defense will buy over \$100 billion in goods and services from the private sector. This cost could possibly be reduced, without eliminating any purchases, by more efficient procurement procedures.

The department could, for example, use more than one company to manufacture a weapon. Particularly for weapons like missiles that are bought in large quantities, such "second sourcing" maintains competition and may cut long-term costs substantially. Also, the department could buy weapons at more economic rates, which may often be higher than today's procurement rates. If these buy rates are consistent with defense needs, they would minimize overhead costs that must be paid to producers. Many questions must, of course, be considered in deciding on second sourcing and the buy size for weapons. The Congress could focus attention on these questions by requiring that the department submit a statement with each proposed buy of weapons. The statement would assess the desirability of second sourcing or changing the buy size, and estimate the costs and savings associated with such actions.

The Congress might also want to grant the department more authority to enter into multiyear contracts for selected weapons systems. Such multiyear contracts reduce the uncertainty about future buys. This may cut costs by prompting producers to stockpile needed raw materials that are likely to increase in price, encouraging investments in tooling that cut long-run costs, and facilitating efficient scheduling by prime contractors and their subcontractors. The Congress could increase the opportunities for multiyear contracting, while also retaining leeway to terminate a program, by increasing the payments that can be made to a company if its multiyear contract is terminated early.

Finally, the Department of Defense might be able to cut down on procurement red tape. The Defense Acquisition Regulations encompass 3,000 pages and are supplemented by over 27,000 pages of additional procurement regulations issued by major Defense Department commands. The regulations mandate highly specific and exacting material standards, manufacturing processes, quality assurance, contract supervision procedures, and documentation. Studies of the costs of applying these regulations to major defense systems suggest that they add between 20 percent and 100 percent to the costs of goods, for little or no gain in effectiveness. Contracting could be simplified by more use of commercial products as well as more use of performance standards instead of detailed process and material standards, as recently directed in the Office of Management and Budget's Circular A-109. These changes could be mandated by the Congress in a revision of the federal procurement codes.

Specific savings are not shown above because there is no way to estimate them accurately. Nonetheless, if such efficiencies resulted in a reduction of 5 percent in the cost of purchases for procurement and research and development--and case studies suggest that, at least in certain instances, such savings could be achieved--then savings over the next five years would total over \$22 billion in budget authority and \$16 billion in outlays.

These efficiencies might, however, create problems. Reductions in red tape assume less direct federal supervision of contract operations. Unless this shift is accomplished carefully, both quality and accountability could be degraded. Multiyear contracting requires the Congress to surrender some control over programs once they are initially approved. Second sourcing, while promising for certain types of weapons, may involve increases in initial costs as the government pays new contractors to become qualified to produce complex weapons.

# REFORM OF FEDERAL WAGE-SETTING PROVISIONS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	370	890	1,090	1,200	1,310	4,860
Outlays	370	890	1,090	1,200	1,310	4,860
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

The hourly pay rates of blue-collar workers under the Federal Wage System (FWS) are adjusted annually in an attempt to maintain comparability with wage rates paid by the private sector in the same locality. Under certain provisions of current laws and regulations, however, the 400,000 FWS employees may receive about 10 percent more than their nonfederal counterparts in similar jobs, with a few receiving as much as 20 percent more. Recent limits on federal pay raises have reduced these differentials, but the laws and regulations remain.

The Carter Administration and previous Administrations have repeatedly recommended changes in the law governing FWS paysetting provisions in order to eliminate the differentials. The changes have also been recommended by a presidential commission and the General Accounting Office. If the changes were enacted, the five-year savings through 1986 could exceed \$4.8 billion. This estimate of savings assumes, however, that FWS workers would be granted a catch-up raise in fiscal year 1982 to make up for past limits on federal pay raises, and that no further limits would be imposed over the next five years. About 80 percent of the savings would accrue to the Department of Defense.

Proponents of the proposed changes argue that the present system is overgenerous to FWS workers and unfair to federal taxpayers. Labor unions and others opposing the changes assert that private-sector practices vary greatly, and that some are similar to the federal system. They also contend that the reforms

would be selective, dealing only with those aspects of the wage-setting mechanism favorable to employees, while continuing those aspects of the system tending to depress federal wage rates.

President Carter's budget recommendations for fiscal year 1982 include proposals similar to the foregoing. Thus, there are no savings relative to the Carter budget.

# ELIMINATION OF DUAL PAY FOR RESERVISTS WHO ARE FEDERAL EMPLOYEES

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	53	58	63	69	75	318
Outlays	52	58	63	69	76	318
Carter Budget						
BA	23	28	33	39	45	168
Outlays	22	28	33	39	46	268

NOTE: Preliminary estimates, subject to change.

Federal civilian employees who are reservists in the armed forces receive both civilian and military pay during their two-week annual period of active duty for training. They also receive their regular vacation entitlement. The Carter Administration and earlier Administrations have recommended paying such employees the greater of their civilian or reserve salaries, rather than both. This initiative was included in the House version of the Omnibus Reconciliation Bill for 1980, but was taken out in conference. Adopting it would save more than \$300 million over the next five years. Savings could all be in defense if the change were implemented by reducing reserve pay, or they could be spread throughout the federal budget under other schemes.

Those who favor such a change point out that the dual pay practice is generally not followed by private employers, nor by the federal government itself when a reservist is called up for state duty. Under those circumstances, the employee receives only the higher salary. Moreover, the practice may attract disproportionately large numbers of federal employees to the reserves, despite the greater likelihood that their civilian jobs would excuse them from a military mobilization. The counter-argument is that the change could have an adverse effect on recruiting and retention of reserves--in a force already falling short of its enlisted manning goals. (If the Congress limited the change to officer reservists--who are not in short supply--the earnings over the next five years would still exceed \$100 million relative to the CBO baseline.)

President Carter's budget recommendations for fiscal year 1982 assume enactment of this proposal. The Carter budget, however, apparently does not include savings for reservists employed outside the Department of Defense.

### SALE OF SURPLUS SILVER

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	229	229	229	229	229	1,145
Outlays	229	229	229	229	229	1,145
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

The federal government currently holds 139.5 million troy ounces of surplus silver, valued at approximately \$2.1 billion in January 1981 prices. Silver has not been required for the national strategic stockpile since 1976, because supplies in the United States, Mexico, and Canada are considered adequate for defense needs. But the silver inventory, stored in the form of ingots, cannot be disposed of without authorizing legislation. If the Congress were to approve the disposal of 15 million troy ounces of silver a year, receipts to the government--assuming the average January 1-15, 1981 price of \$15.24 per troy ounce--would accumulate to about \$1.1 billion through fiscal year 1986.

To the extent that disposal might lower silver prices, the legislation would be opposed by domestic mining and metal processing industries, and by foreign countries relying heavily on silver exports. Other opponents fear that U.S. defense preparedness might be weakened. The disposal of surplus silver could also be viewed as an artificial budget reduction measure in that the sale of assets does not reduce federal purchases of goods and services. Proponents argue, however, that the silver inventory is unnecessary and could best be used as a source of federal revenue.

President Carter's fiscal year 1982 budget recommendations assume the sales described above, beginning in fiscal year 1981. Consequently, enactment of this item will result in no savings relative to the Carter budget.



# REDUCTION OF P.L. 480 TITLE I SALES

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	100	214	347	499	673	1,833
Outlays	100	214	347	499	673	1,833
Carter Budget						
BA	53	102	260	373	433	1,221
Outlays	53	102	260	373	433	1,221

NOTE: Preliminary estimates, subject to change.

Agricultural exports are subsidized under the Agricultural Trade Development Act of 1954 (P.L. 480), which was enacted in a period when the inconvertibility of foreign currencies and the lack of foreign exchange held by potential customers inhibited commercial exports of large domestic surpluses of agricultural commodities. Sales for foreign currencies and, under later amendments to the law, dollar credit and convertible local currency credit provided a mechanism for developing markets, disposing of surplus commodities, and furthering U.S. foreign policy interests. (Humanitarian feeding programs are financed through Title II, Foreign Donations.)

In fiscal years 1956 through 1965, the P.L. 480 program financed between one-quarter and one-third of all agricultural exports. Since the mid-1960s, the value and tonnage of Title I shipments have declined as commercial exports have grown. In fiscal year 1980, Title I concessional sales represented only 3 percent of total agricultural exports, although they still accounted for a larger share of exports of particular crops (for example, 6.5 percent of wheat and 13.0 percent of rice).

Moreover, conditions in the agricultural marketplace have changed significantly since the 1950s. Disposing of surpluses is no longer a primary concern. In fact, in the early 1970s and again in 1980, poor crops and strong commercial export demand have driven up domestic food prices, contributing to inflation. Another year of poor harvests may even bring pressure for export controls.

Subsidized sales may be inimical to long-run U.S. interests if cheap food discourages local investment in agricultural production and discourages other countries from building local stockpiles of commodities. On the other hand, concessional sales through Title I are used to further U.S. foreign policy. Responding to the 1977 Congressional mandate, 75 percent of concessional sales now go to low-income countries (per capita GNP of \$625 or less). Concessional sales also provide budget support to selected countries for purposes related to U.S. national security. About half the dollar volume of sales in the 1981 allocation is to countries receiving assistance through the security-oriented Economic Support Fund.

Since two of the three original objectives of Title I sales have been satisfied, the Congress might decide to limit Title I sales to countries in which the United States has a strong foreign policy interest, which are suffering from foreign exchange and food shortages, and which have a history of effective use of U.S. aid. In that case, Title I sales could gradually be cut in half over the next five years, for a saving of \$1.8 billion. The net budget savings could be smaller in some years because of domestic farm support payments that might increase in the absence of Title I sales.

President Carter's fiscal year 1982 budget recommendations assume lower funding levels than those in the CBO baseline, thus accounting for the differences in estimated savings shown in the table.